



ALARMING ILLEGAL CIGARETTES CONTINUE TO PRESSURE LEGAL VOLUMES

Bukit Damansara, 19 July 2018 – British American Tobacco (Malaysia) Berhad (BAT Malaysia) today announced its financial results for the second quarter of the year ending 30 June 2018.

Total legal industry volume remains under pressure with illegal cigarettes remaining high at 63% of total consumption in Malaysia (comprising 57% smuggled cigarette and 6% quasi legal cigarettes with predominantly illegal tax stamps). This has resulted in a 3.5% decline of total legal industry volumes in the first half of 2018, compared to the same period of last year. (Source: Consumer Track by Kantar Research Agency/Illicit Cigarettes Study).

In Quarter 2 of 2018, BAT Malaysia recorded a volume growth of 4.8% compared to the first quarter of 2018, outperforming the total legal market growth of 2.2% in the second quarter compared to the first quarter. Consequent to the improved volume performance, the Company saw an improved second quarter revenue growth of 6.5% and a gross profit growth of 8.7%.

The Group registered a market share of 57.2% in the second quarter of 2018, with a decline of 1.1ppt versus the first quarter of 2018 mainly due to decline of Dunhill share which was partially offset by Peter Stuyvesant and Rothmans share growth. Year to date, total market share is up by 1.3ppt vs the same period of last year.

Dunhill share in Q2 was at 39.7%, down by 1.0ppt vs Q1 partially impacted by the growth of VFM and the continuous pressure of high levels of illegal and quasi legal (illegal tax stamps) trade.

Peter Stuyvesant registered a growth of 0.2ppt to further strengthen the Group's leadership in the Aspirational Premium segment. In the Value for Money segment, Rothmans also experienced slight share growth of 0.2ppt, maintaining its 30% share of segment. The segment growth is in line with the Group's projections.

Q2 2018 Financial Highlights:

- Revenue increased by 6.5% compared to previous quarter, yet H1 revenues were 12% below H1 SPLY;
- Operating expenses decreased by 9.7% compared to previous quarter, largely attributed to lower overhead costs driven by cost base transformation initiatives;
- Profit from Operations registered an increase of 17.1% compared to the previous quarter and H1 profit from operations but 20.8% down compared to the same period of last year, as a result of decreasing market size, absence of export and mix changes.

Based on the Company's financial performance, the Board of Directors has declared a second interim dividend of 35 sen per share.

Erik Stoel, Managing Director of BAT Malaysia stressed 'We are satisfied with our progress and performance in quarter two of this year within the constraints of the legal market. However, the business continues to be under pressure as a result of extremely high level of illegal trade in Malaysia. Since the leadership of our new government came into effect, we observe an improvement in shareholder confidence, which is currently reflected in our share price, driven by the belief that our new Government will be more effective in clamping down on illegal trade. While we are also encouraged by the Government's manifesto and stated stance to address illegal cigarettes, we have not to date seen any new significant enforcement initiatives nor decline in illegal incidence. Illegal smuggled cigarettes currently at more than 60% of the total market continues to stand out as red flag to our business and society. We have been concerned and continue to be so over this issue which translates to approximately RM5 billion in tax revenue loss, at the expense of taxpayers, legitimate companies like BAT Malaysia as well as our global and local investors which saw their investment value been halved over the last 2 years.'

Erik then added "We understand that the new Government has to go through a wide array of pressing topics at this stage, but we urge the new Government to include the clamp down on illegal trade as an urgent and significant priority. We are more than willing to co-operate with the new Government to identify solutions that can be beneficial to all stakeholders which are impacted by the scourge caused by illegal cigarettes. We hope to see the manifesto with regard to illegal trade and corruption come to live very soon and translating into a recovery of the legal market in the second half of 2018".

For more information on British American Tobacco Malaysia's financial results, please visit www.batmalaysia.com

About British American Tobacco (Malaysia) Berhad

British American Tobacco (Malaysia) Berhad (British American Tobacco Malaysia) British American Tobacco Malaysia is the leading tobacco company in Malaysia. British American Tobacco Malaysia markets high quality tobacco products designed to meet diverse consumer preferences. Our portfolio includes world-famous brands like DUNHILL, KENT, PETER STUYVESANT, PALL MALL and ROTHMANS.

British American Tobacco Malaysia employs 497 employees who are involved in a wide spectrum of disciplines, from generating insights, developing brands and making these available on a national level. In addition, we also set leading edge talent development practices as well as ensure a strong foundation of corporate governance and shareholder relations.

British American Tobacco Malaysia is part of the British American Tobacco group, which is the world's most international tobacco group and the second largest stock market listed tobacco group by global market share.

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